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Developing A Strategic Business Plan

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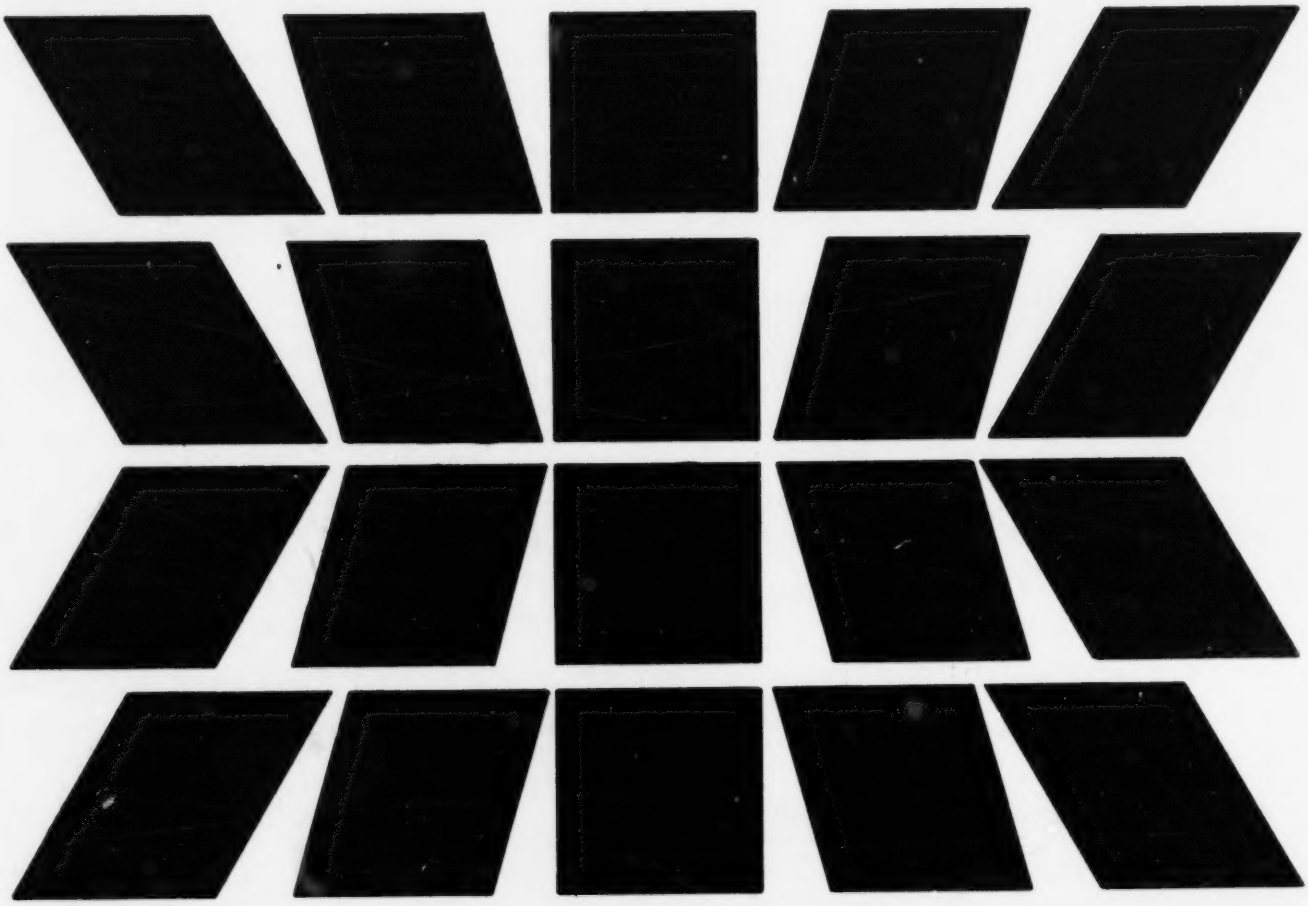

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Introduction

This publication will help you develop a Strategic Plan for your small business by:

- Taking advantage of your company's strengths,
- Eliminating or reducing its weaknesses,
- Capitalizing on opportunities and emerging trends,
- Taking defensive steps to reduce threats facing your business,
- Bringing together all the resources of your company and directing them toward specific goals in areas like Sales growth, Profit, Productivity and Service and
- Prioritizing and documenting all the things your company wants to accomplish over the next 3–5 years, allocating resources, and assigning responsibilities to be certain they get done.

Is Strategic Planning Really Necessary?

"My business is very small. Do you think I really need to develop a plan like this?"

The best response to this question is, "Only if you want to stay in business and prosper."

Times change so rapidly and running a business is so complex these days that owner-managers can easily find things getting out of control if adequate planning and control are not utilized. And competition seems to be getting tougher all the time. In most cases, small businesses find themselves competing with much larger companies—ones that know the benefits of long range planning and practice it. From a defensive standpoint, it is important that you employ the same concepts to your operation.

"Steering a business by financial controls alone is not enough."[1] The small business owner needs more than a budget to manage the future direction of his company.

Through Strategic Planning, you can get employees in all areas of your business pulling in the same direction and sharing the same vision that you have for the future of your business. At the same time, plans of this type enable you to act and react quickly to market opportunities and problems.

You can also use your plan to communicate with bankers who often do not understand the nature of your business. Bankers need to be convinced that your company is in control of its future before they will lay their money on the line. A comprehensive plan aimed at sustained growth in sales and earnings can be very convincing.

A plan is also very helpful in dealings with your suppliers, advertisers, attorney, accountant, auditor, investors, and/or business consultants.

What is Strategic Planning?

Ask ten people for a definition of Strategic Planning and you will probably receive ten different answers. But, most will agree that it relates to the overall direction of the company.

Every company exists for a purpose. That purpose is its "mission," and all the things it does are generally directed toward fulfilling that mission.

Strategic planning is a process by which key people in an organization can:

- Define or redefine the company's mission,
- Assess its current situation,
- Decide what they want the business to look like in say 3–5 years and
- Map out a course to bring the company from where it is now to where they want it to be, recognizing its

  —Strengths

  —Weaknesses

  —Opportunities, and

  —Threats

[1] "Uses and Misuses of Strategic Planning"; Daniel H. Gray; Harvard Business Review; January-February, 1986.

When done properly, a strategic planning is a simple, creative, and flexible process that works well for a small business, a way to replace separate marketing, operational, financial, and/or budgeting plans with one comprehensive plan.

Let's take a closer look at the process itself.

Step 1—Analysis of Current Situation: External Factors

The process begins with an assessment of the current situation in which the business finds itself. Those areas that predominantly relate to external factors impacting on the company are usually examined first. In most cases, it makes sense to divide your analysis into groupings. For example:

- National Economic Outlook
- Local or Regional Economic Outlook
- Industry Outlook

This part of the analysis should begin early, at least a quarter or so before you begin the formal planning process. By making a folder for each of the preceding outlook areas, you can begin to collect information for later analysis. Among the common sources of information to consider are:

- The Wall Street Journal
- The New York Times
- Business Week
- Industry Periodicals
- United States Department of Commerce (especially for the 12 leading economic indicators).
- Federal Reserve Banks
- Local Industry Associations
- Local Chambers of Commerce
- The Public Library

After data is collected, its present and future impact can be assessed. For example, slow housing starts, weak retail auto sales, reductions in real disposable personal income, and increasing levels of unemployment would signal reduced future demand for goods and services.

After preparing a written, concise assessment of the impact of these external factors and sharing it with key people in your organization, you are ready to begin the next phase of your planning effort.

The Planning Session

After preparing a concise, written assessment of the external environment, you are ready to gather together key people in your organization for a marathon planning session. These should include owners and key people in the organization (sales, service, finance, processing, manufacturing, etc.).

It is essential that all effective areas of the company be represented. In that way, you will reveal the company's strengths, opportunities, weaknesses and threats and all areas of the company will be more likely to "buy into" the goals eventually set. Strategic planning is most successful when it is a participative process.

For the process to be most effective, an energized environment must be created. One that is free of interruptions and distractions. To get the creative juices flowing, it is usually best to get away from the business premises. A hotel meeting room where coffee and lunches can be brought in is usually sufficient. For many businesses the process takes two full days, so you may want to accomplish it over a weekend.

The sessions will function best if they are structured. The following is a proven technique:

- Appoint someone to be the facilitator of the group. It should be someone impartial and not so locked into his/her own ideas that he or she cannot see potential merit in the ideas of others,
- Agree in advance that creativity is desirable so no idea brought up at the session will be immediately discarded as impractical or undesirable. (Sometimes impractical or impossible suggestions can "spark" other extremely positive ideas),

- Appoint someone who can capture the essence of what the group agrees to and write it down,
- Equip the room with a flip chart and bring a sufficient number of felt tip markers,
- Bring masking tape and/or thumb tacks for use in tacking up the flip chart pages around the walls of the room as needed and
- Follow an agenda. The one shown on Exhibit I, has been proven very effective.

After the meeting's opening comments, review of the session's procedures, and report on the external environment, you are ready to begin what is perhaps the most important part of the process—S.W.O.T. analysis.

Analysis of Strengths, Weaknesses, Opportunities, and Threats

Here the facilitator divides the flip chart page into two sections by drawing a vertical line down the middle and heading the page as follows:

STRENGTHS & WEAKNESSES

OPPORTUNITY & THREATS

Then the facilitator asks anyone in the room to identify a strength, weakness, opportunity or threat for any area of the company. He or she explains that eventually these areas will be addressed in the goal setting portion of the session.

Each SWOT is written very concisely on the flip chart. Everyone is asked to identify any SWOT's they can think of. The process can be accomplished by starting with one person and going around the room in a clockwise fashion. By announcing this technique, you put everyone on guard that when their turn comes up, a response is expected. This rapidly creates a "charged" atmosphere. No one wants to feel foolish in front of a group, so they will listen carefully to what is said and think hard about a number of possible responses they may use when their turn comes up.

Most companies have several SWOT's designed to impact on their ability to:

- Increase Revenues,
- Improve Financial Condition (Profitability, Liquidity, Solvency, Credit and Collections Policies, Etc.),
- Keep pace with the Competition,
- Improve Efficiency, Productivity and Service,
- Capitalize on Emerging Trends,
- Improve Labor Relations, Human Resource Development and Training (Personnel Issues: Salary Administration, Job Descriptions, Benefits, Personnel Manuals, Etc.),
- Improve Internal Communications,
- Improve Distributor or Supplier Relationships,
- Improve Public Relations, Advertising, Promotions, Etc.,
- Improve or Enhance Products and Services,
- Capitalize on their Physical Facilities (Location, Capacity, Layout, Parking, Costs Etc.) Improve or Enhance their Insurance Coverage,
- Function at Peak Efficiency with their current Organizational Structure,
- Get the most out of their Present Legal Structure and
- Arrange for the orderly Retirement and Transfer of Ownership and Control of Senior Owners to Junior Owners or Potential Owners

The facilitator should be certain that all SWOT's are recorded on the chart. If someone's description of a SWOT is so complex that it cannot be recorded concisely, ask that person to describe it in no more than five words.

As pages of the flip chart become full, tack them up around the room where everyone can see them. They will be used again later on.

When the facilitator has gone around the room several times and every conceivable SWOT has been identified, the group is ready to attack the next phase of the planning session.

Development of "Mission" Statement

An organization's Mission Statement (usually no more than one or two sentences) describes the purpose of the organization. It is aimed at enabling all members of the organization to share the same view of the company's goals and philosophy.

The mission statement describes the business you are in. It typically speaks to:

- Reason the organization exists,
- Products and services offered,
- Clientele served,
- Nature and geographic marketing territory of the business and
- Areas of specialization

Every organization needs a mission statement and many require one for every business unit that is part of their organization.

The facilitator should lead the group in establishing (or redefining) its mission statement in view of the changes discussed earlier regarding their external environment, and the SWOT's they have discussed.

Let's take a look at some sample Mission Statements—

- "The Johnson Corporation of Ohio is dedicated to maintaining its position as a leader in providing quality insurance and financial service products to businesses and individuals through a staff of highly trained people sharing a tradition of integrity and service to its clients."
- "Budget Travel provides economical vacation travel and related services to customers in the greater Chicago area, who expect efficient, problem-free travel arrangements at a low cost."
- "Our goal is simply stated. We want to be the best service organization in the world."—IBM
- "Whitefield Markets" goal is to be the lowest cost provider of quality foods and groceries in the West Orange area."
- "Velvet Green Nurseries" goal is to provide a full range of high quality wholesale and retail nursery products to professional landscapers and discriminating homeowners."
- "Smith Packing Company's mission is to be the lowest cost producer of pork products in Delaware."

Identification and Analysis of Key Results Areas (KRA's)

The next phase of the planning session is to identify and analyze your company's key results areas. Most companies have from 8–15 key results areas where the organization must achieve success for it to grow and prosper. The company's objective and tactics can be grouped into these key areas, making it easier to process, prioritize, allocate resources, and coordinate with other areas.

The facilitator should lead the group in identifying key results areas for their business. Many of the areas mentioned earlier in the SWOT analysis section of this booklet (Increase Revenues, Improve Financial Condition, etc) will often become the KRA's for a company.

Establish Strategic Objectives

After each Key Results Area is agreed upon, the next phase of the session is to establish strategic objectives for each KRA. Usually there will be one or two strategic objectives for each KRA, but occasionally there can be more. As with all objectives, it is important to make them as quantifiable as possible.

Example:

Key Results Area: Increase Revenues
Strategy Statement: Increase Revenues from new customers, expanded sales to existing customers, acquisition of other related businesses, opening new branches, marketing new products/services, investment income and inflation to achieve:

$_____ in Revenues by Dec. 31, 19_____
$_____ in Revenues by Dec. 31, 19_____
$_____ in Revenues by Dec. 31, 19_____
$_____ in Revenues by Dec. 31, 19_____
$_____ in Revenues by Dec. 31, 19_____

Example:

Key Results Area: Improve Financial Condition
Strategy Statement: Establish and maintain a financial condition sufficient to support planned growth through achieving liquidity, solvency and profitability as follows:

_____

19____ 19____ 19____ 19____ 19____

_____

Liquidity—
Achieve a working capital position of

_____

Solvency—
Achieve net worth of

_____

Profitability—
Achieve pre tax profit margins as follows

_____

Establish Tactical Objectives

After Strategic Objectives are established for each KRA, you are ready to establish tactical objectives to support each strategic objective. Eventually you will prioritize these tactical objectives, assign responsibilities and agree to target dates for completion.

An easy way to do this is to go back to the pages of ideas from the SWOT analysis (they should still be tacked up on the walls of the room) and use them to facilitate the process. Group each idea shown on the SWOT analysis into one of the Key Results Area categories. For example, say the flip chart pages identified 12 SWOT's that could either positively or negatively impact on KRA #1 "Increase Revenues." Use those SWOT's to develop tactics for the Increase Revenues strategy. Strengths and Opportunities can be capitalized upon by establishing tactics to get the most from them.

Weaknesses and Threats can be reduced or eliminated by establishing tactics to deal with them.

Tactical objectives are specific objectives, usually of a short term nature, aimed at supporting the strategic objective. For example, if your strategic objective is to Increase Revenues, some tactical objectives might be to:

- Produce and market a new product (take advantage of an opportunity),
- Develop and market a new service (take advantage of an opportunity),
- Identify a specific market you have been successful with and develop a target marketing plan to penetrate that market (capitalize on a strength),
- Retain sales staff or replace weak sales staff (correct a weakness),
- Revise traffic flow of store or change displays, signs, etc. (correct a weakness or capitalize on a strength),
- Change marketing or advertising theme (take advantage of an opportunity),
- Establish a sales campaign with meaningful incentives (take advantage of an opportunity) or
- Change salary program for sales people from fixed salary to variable salary based on their sales (correct a weakness)

After you have established tactics to address each SWOT and have categorized all of the SWOT's, you are ready to proceed with the next phase of the process.

Integration of Budgeting into Strategic Plan

The strategies and tactics agreed to will impact on revenue and expenses to differing degrees and at different times.

depending on implementation dates. The group needs to consider the potential impact of each objective on both revenues and expenses so that they can eventually be prioritized and reflected in future budgets.

When this has been completed you are ready to prioritize your objectives.

Prioritizing Objectives, Assigning Responsibilities and Establishing Target Dates

It is important that you resist the temptation to set extremely ambitious target dates for your objectives. In most cases, the tactics you have agreed on need to be accomplished by people who already have a full day's work with no time to spare. Each employee must be given sufficient time to achieve the specific objectives assigned to him or her, or the plan will quickly be viewed as impossible to accomplish and will relegate itself to uselessness.

When assigning a tactic, let the recipient tell the group how long it will take and accept that target date, if at all possible.

After prioritizing all the objectives, assigning responsibilities and agreeing to target dates for each, you are ready to discuss business plan coordination and monitoring.

Business Plan Coordination and Monitoring

For maximum sustained results, an overall coordinator for the Business Plan must be appointed. That person should be responsible for bringing together the various pieces of the business plan into one comprehensive plan and for monitoring the continuing process of following the plan.

Exhibit II displays a suggested format for the Business Plan and Exhibits III and IV are examples of the two primary forms used for recording strategic and tactical objectives.

Exhibit III is completed for each key strategy area. It displays the key strategic objectives and all the supporting tactical objectives. It also provides the name of the person responsible and the agreed upon target date, with a section for comments on the status of each objective.

Exhibit IV is an Individual Objective/Summary Status Report. This form enables the individual to keep track of the status of each objective he or she is responsible for and report monthly to the business plan coordinator.

The monitoring process should be made as simple as possible. Each month, the business plan coordinator collects the updated individual objective summary/status reports from employees and makes certain that all objectives in the plan have been accounted for. He or she makes note of shortfalls, needs for reforecasts or meetings to be called, and documents progress in a brief memo to all business plan recipients. For example:

- "At the end of April, we are on target or ahead of plan in all but 2 tactical objectives. The attached individual objectives status reports describe the status of every objective."
- "Where a shortfall exists, I have highlighted the shortfall and made notation of the actions being taken."
- "Overall we are well on our way towards achieving our major objectives."

When this procedure has been discussed with the group, agreement should be reached on when the written Business Plan should be completed and ready for use.

The method of communicating the content of the plan to all employees should also be discussed.

Why Business Plans Fail

No treatment of this subject would be completed without mention of the fact that some business plans fail—and for good reasons.

The major reasons some fail are:

- Some plans are constructed around incorrectly defined strategies.

- Some do not have detailed implementation plans with tasks, schedules and responsibilities.
- Some plans do not state goals in quantifiable terms.
- In some plans, the process used to develop the plan did not allow all individuals to share a common view of the organization's future and how to get there.

The process described in this booklet is aimed at avoiding these pitfalls and has been proven effective with small businesses.

EXHIBIT I

Strategic Planning Session: Agenda

Dates:

Location:

Facilitator:

Scribe:

Day I

TIME	TOPIC	RESPONSIBILITY
8:00–8:05	Opening Comments	President
8:05–8:15	Review Agenda Review Procedures for Session Review Roles of Facilitator and Scribe	Facilitator
8:15–8:30	Review completed analysis of External Environment	Preparer of Analysis
8:30–10:00	*SWOT Analysis Part I* Round table discussion aimed at identifying and documenting on the flip chart, all of the company's Strengths, Opportunities, Weaknesses and Threats	Facilitator and Group
10:00–10:15	Coffee Break	
10:15–12:00	*SWOT Analysis—Part II* Continuance of SWOT analysis	Facilitator and Group
12:00–12:45	Lunch	
12:45–2:30	Develop or redefine "Mission Statement" for organization (statement of purpose)	Facilitator and Group

2:30–2:45	Coffee and soft drink break	
2:45–3:30	Analysis and identification of Key Results Areas (areas in which the company must achieve significant results in order to achieve the kind of revenues and profits desired)	Facilitator and Group
3:30–5:00	Establish Strategic Objectives Within each Key Results Area establish a small number of strategic objectives (objectives that are descriptive of a condition you want to achieve)	Facilitator and Group
5:00–6:30	Dinner	

Day II

8:00–8:05	Opening Comments	President
8:05–8:15	Review of where group left off	Facilitator
8:15–10:00	Establishing Tactical Objectives to address SWOT's—Part I	Facilitator and Group
10:00–10:15	Coffee Break	
10:15–12:00	Establishing Tactical Objectives to address SWOT's—Part II	Facilitator and Group
12:00–12:45	Lunch	
12:45–1:45	Integration of Budgeting Process into the strategic plan	Facilitator and Group
1:45–2:00	Coffee and soft drink break	
2:00–4:00	Prioritizing objectives, assignment of responsibilities and establishment of target dates	Facilitator and Group
4:00–4:30	Discussion of Business Plan Coordination and Monitoring (Includes discussion of Business Plan format and appointment of Business Plan Coordinator who will handle monitoring and keep everyone advised when shortfalls or reforecast situations arise.)	Facilitator and Group
4:30–4:45	Agreement on timing of written report and method of communicating the plan to all employees of the organization	Facilitator and Group
4:45–5:00	Closing Comments	President

EXHIBIT II
Business Plan Format

- Cover
- Table of Contents
- Mission Statement
- Summary of Key Strategies
- Objectives, Responsibilities and Targets
  - For (enter Key Strategy Area #1)
  - For (enter Key Strategy Area #2)
  - For (enter Key Strategy Area #3)
  - For (enter Key Strategy Area #4)
  - For (enter Key Strategy Area #5)
  - For (enter Key Strategy Area #6)
  - For (enter Key Strategy Area #7)
  - For (enter Key Strategy Area #8)
  - For (enter Key Strategy Area #9)
  - For (enter Key Strategy Area #10)
  - For (enter Key Strategy Area #11)
  - For (enter Key Strategy Area #12)
- Individual Objectives Summaries/Status Reports
  - For (enter Employee's Name)
  - For (enter Employee's Name)
  - For (enter Employee's Name)
  - For (enter Employee's Name)
  - For (enter Employee's Name)
  - For (enter Employee's Name)
  - For (enter Employee's Name)
  - For (enter Employee's Name)

EXHIBIT III

Objectives/Responsibilities & Targets

Key Strategy Area:

Strategy Statement:

TACTICAL OBJECTIVES	RESPONSIBILITY	TARGET DATE	STATUS

EXHIBIT IV

Individual Objectives Summary/Status Report for (Employee)

TACTICAL OBJECTIVES	KEY STRATEGY AREA	TARGET DATE	STATUS

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